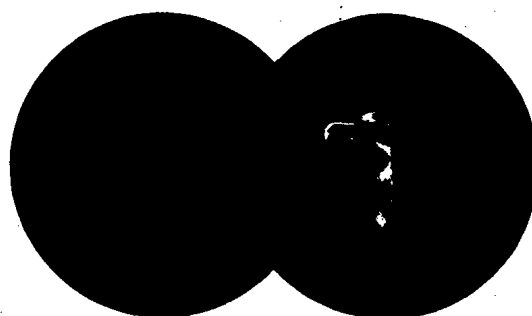


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WEEKLY SUMMARY



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SECRET**H I G H L I G H T S**

The opening sessions of the Council of Foreign Ministers in Paris have revealed practically nothing about the position the USSR intends eventually to take. Vishinsky's proposal that Germany be returned to four-power control represents only an initial bargaining position and neither precludes nor prefigures subsequent Soviet concessions in an attempt to reach over-all agreement on Germany (see page 2). However, other Soviet moves accompanying the Soviet decision to resume four-power talks on Germany--such as the recent Greek "peace offer," new Albanian overtures to the West, and a generally more cooperative Soviet attitude concerning East-West trade--may reflect Kremlin recognition of the need for a shift in tactics in order to obtain Soviet objectives in Europe.

The capture of Shanghai during this past week rounded off the Communist campaign in the east Yangtze area but did not prevent the escape of approximately half the Nationalist defenders. Elsewhere in China, Communist forces made significant gains (see page 8). Meanwhile, the key question in the Indonesian situation at present is whether the Republicans can be successfully restored to power at Jogjakarta (see page 8).

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SECRET**PRESENT SOVIET TACTICS IN EUROPE**

The opening sessions of the Council of Foreign Ministers in Paris have done little more than reveal, in broad outline, the initial bargaining positions of the participants. The Soviet proposal that Germany be returned to four-power control came as no surprise and does not preclude subsequent Soviet concessions designed to achieve some sort of over-all agreement on Germany. Meanwhile, the Soviet decision to resume four-power talks on Germany has been accompanied by other Soviet moves which may reflect the Kremlin's recognition of the need for a shift in tactics in order to obtain Soviet objectives in Europe. The Greek "peace" offer, Albanian overtures to the West, and a generally more conciliatory Soviet attitude toward East-West trade all point to the possibility of a concerted Soviet campaign to reach a temporary truce on the continent. Steps taken thus far by the Kremlin toward fulfillment of such a truce, however, have been tentative and exploratory in nature and suggest that the door is still being left open for a return to more militant tactics in the event of a breakdown of the discussions on Germany.

Greek Offer The Soviet Union's suggestions for attaining peace in Greece, as outlined in a TASS article of 19 May, are substantially the same as several propaganda "peace" offers previously made by the Greek guerrillas. The new aspect of this proposal, however, is the Soviet offer to participate in a big-power settlement in Greece, an offer which contains an implicit admission that the USSR can exert control over the guerrillas. The Soviet suggestion, which evoked prompt US and British refusals to participate in a "big-power deal" and set off a sharp Greek reaction, may represent one facet of an over-all Soviet shift in tactics. If the TASS announcement does represent the first move in such a gambit, then further moves of this sort will be forthcoming and the

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Kremlin may soon evince a willingness to bargain in order to reach a "settlement" which would slacken the western hold on Greece. Seen in these terms, any intensification of guerrilla fighting must be regarded as a Communist attempt to dispel the notion that peace is being sought because of weakness.

Albanian Overtures Coinciding with the Kremlin's Greek "peace" offer, Albania has taken several steps to improve its relations with the West. The resumption of Albanian-Italian diplomatic relations has been followed by a feeler toward the re-establishment of diplomatic ties with the US and reported attempts to reach an out-of-court monetary settlement with the UK in the long-standing Corfu Channel case. The USSR has had little success in restoring economic prosperity in Albania or creating a stable political regime. The resumption of diplomatic relations between Albania and the West could serve as a first step toward restoring Albania's commercial ties with Western Europe and would also be a natural forerunner to any peace moves in Greece. The USSR may also be attempting to smooth the way toward Albania's membership in the United Nations.

East-West Trade Although the resumption of trade between the eastern and western zones of Germany was still being delayed by complex technical details and by the larger considerations before the CFM, Soviet bloc delegates at the recent Geneva session of the Economic Commission for Europe (ECE) maintained a notably mild attitude toward the West. This attitude probably reflects: (1) increasing Soviet concern over the faster economic recovery in Western than in Eastern Europe; and (2) a Soviet desire, in the event of an agreement at the CFM, to use the ECE as a means of promoting East-West trade and securing western aid.

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SECRET**WESTERN EUROPE****FRANCE**

Budget Debate The Queuille Government is facing its first major test in several months while the French Assembly debates the highly controversial Petsche plan for meeting the budgetary deficit of 83 billion francs. Finance Minister Petsche's plan, which provides for economies in various governmental activities and for increased revenues, is encountering criticism from both the right and the left. The right objects because the Government does not call for a basic change in nationalized industries; the left opposes the intention to reform nationalized industries and to provide additional funds for operations in Indochina. The rightists will probably be most vigorous in resisting any compromise efforts because of their conviction that the recent cantonal elections have given them the upper hand over the Socialists. However, if the rightists do not force a showdown, the Queuille Government stands a fair chance of winning approval for the Petsche plan, principally because of the Assembly's recognition that a governmental overthrow during the CFM meetings would lessen France's chance to play a strong role in determining the future of Germany.

German Policy The appointment of Andre Francois-Poncet as French High Commissioner for Germany increases prospects for substantial improvement in the French occupation administration. Francois-Poncet, Ambassador to Berlin from 1931 to 1938 and personal representative in Germany of Foreign Minister Schuman for the past few months, is not only well-versed in all aspects of the German problem but is generally considered a progressive and brilliant diplomat.

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FRANCE

He will, however, be confronted with particularly difficult problems in administration. French military government personnel charged with implementation of trizonal fusion and establishment of the west German state, as well as old-line French foreign office officials, do not fully support the more liberal French policy toward Germany developed during the Schuman regime.

GERMANY

Nationalist Press The rightist and nationalist trend in western Germany will probably be accelerated by a decline in the strength and influence of independent, non-party newspapers when press licensing by the Military Government ends in July. Local German officials, long accustomed to exercising control over the German press and angered by the constant and severe press criticism of the postwar period, will undoubtedly attempt to obstruct or prevent the operation of democratic independent newspapers. In order to suppress the democratic press, these officials will exploit loopholes in the freedom-of-press laws now being reluctantly prepared by the Laender, thus encouraging the establishment of propagandistic, nationalist newspapers. The local democratic press will also face production difficulties. Plants where these papers are now being printed under leases imposed by the occupation authorities will, in many cases, attempt to break these leases, thereby making it even harder for the independent press to function without official backing.

SECRET**NEAR EAST - AFRICA****PALESTINE**

Israeli Demands New Israeli territorial demands threaten to cause a complete breakdown in the already bogged-down peace conference at Lausanne. Far from making any concessions to the Arabs, Israel now intends to demand additional Jordan territory in central Palestine for a "development scheme." Because many Arab leaders believe Israel needs peace more than they do, the airing of these new demands may cause the Arabs to fold their tents in the conviction that they can do no worse than wait until the next General Assembly session opens in September.

INDIA - PAKISTAN

Kashmir Situation Another snag has apparently been struck by the UN Commission for India and Pakistan (UNCIP) in its attempts to obtain a truce agreement governing Kashmir. India's reply to the Commission's most recent truce proposals contained important reservations; Pakistan's reply, which is expected momentarily, will probably represent no more than qualified acceptance. Despite these difficulties, however, an agreement on truce terms can probably be reached if UNCIP demonstrates its readiness to take a strong stand on the most troublesome points at issue. Under sufficient pressure from UNCIP, India would probably be willing to abandon its demands for the right to station garrisons in northern Kashmir in return for a Pakistani agreement to disarm and disband the pro-Pakistan Azad forces. Each side would thus have a definite quid pro quo and would find it difficult to accuse the other of acting in bad faith. Given an agreement on these two major issues,

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INDIA - PAKISTAN

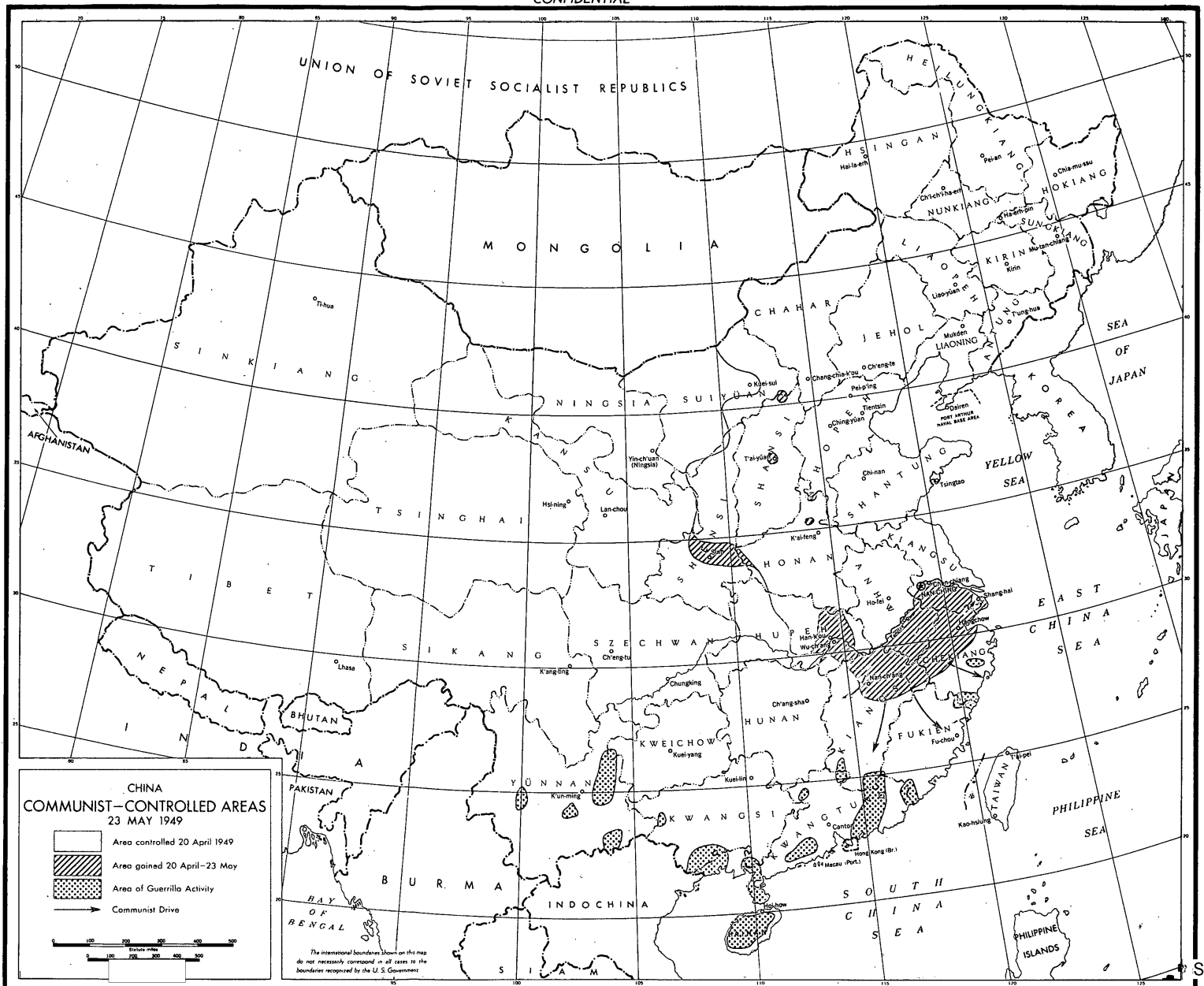
there should be no further objection to the immediate installation of the Plebiscite Administrator, who could then take over the responsibility for the maintenance of law and order throughout Kashmir.

CENTRAL AFRICA

Transport Conference Significant moves toward overcoming transportation inadequacies in Central Africa may be taken at an exploratory conference in Lisbon currently being attended by British, Belgian, French, and South African delegates. Central Africa's jerry-built and disjointed rail, highway, and port systems are seriously impeding the production and delivery of numerous raw materials and minerals strategically important to the US. Although any decisions reached at the Lisbon conference will not immediately alleviate this transportation bottleneck, progress may be made toward working out coordinated plans which would pave the way for development of the strategic potential of this area.

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SECRET**F A R E A S T .****CHINA**

Communist Advances With the capture of Shanghai, the Communists have achieved a major goal of their east Yangtze campaign, despite their failure to prevent the escape of approximately half of the Nationalist defending forces. Meanwhile, Communist forces under Liu Po-cheng, advancing into south China, slowed down to a halt during the past week, perhaps to regroup before effecting a rendezvous with Communist irregulars to the south. Although Canton's garrison of 50,000 is wholly inadequate for a sustained defense of the city, it will serve to delay Communist capture of the city until Liu's lightly-equipped troops have been reinforced. However, the Communists made significant gains in central and northwest China. In central China, Communist forces have captured Nanchang, fourth provincial capital to fall since the opening of the Yangtze offensive, and have advanced some 50 miles south along the Canton-Hankow railroad. In northwest China, the Communists reportedly occupied Sian, following the withdrawal of the largest uncommitted anti-Communist force in China under Hu Tsung-nan, a loyal supporter of Chiang Kai-shek. Hu reportedly withdrew his 175,000 troops to the southern part of Shensi and to Szechwan.

INDONESIA

Power Transfer The key question in the Indonesian problem at present is whether the Republicans can be successfully restored to power in Jogjakarta. Not only does further progress on the implementation of the Dutch-Republican agreement depend on a successful restoration and an orderly

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INDONESIA

Dutch withdrawal, but a continuation of the Netherlands' present liberal policy in Indonesia hangs on this question. The 7 May Batavia agreement, which represents a turning point in Dutch policy, was reached largely through the leadership of UN delegate Van Roijen. Most Dutchmen, however, remain skeptical of Republican ability to carry out the agreement, to control extremists, and to maintain order during and after the Dutch withdrawal. If the restoration fails, the Dutch will be quick to condemn the UN and, more particularly, the US for what they regard as interference in Dutch affairs. A successful restoration, however, would probably ensure a continuation of present Dutch policy in Indonesia and would consequently raise the prospects for a successful resolution of remaining Dutch-Republican problems at the forthcoming roundtable conference at The Hague.

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SECRET**W E S T E R N H E M I S P H E R E****ARGENTINA**

UK Meat Agreement As the UK and Argentina continue to press for the best possible bargain in the still deadlocked negotiations for a meat purchase agreement, it is becoming increasingly imperative for both countries that an early settlement be reached. Argentina must sell substantial quantities of meat to the UK if it is to avoid even more serious economic difficulties than now exist, while Great Britain must import Argentine meat in order to avoid additional drain on its meager dollar resources. If, in order to avoid a breakdown of negotiations, Argentina grants the reported British demands for price concessions and preferential trade and exchange rights, the economic and political problems already confronting the Peron regime will be aggravated. Economically, the meat packers and refrigeration plants will have to be further subsidized by the government which is already finding it difficult to meet its obligations. Moreover, failure of the government to increase livestock prices may result in a decrease in cattle production, thus jeopardizing the principal source of Argentina's income. Politically, Argentine submission to the British demands would strengthen powerful elements in the government opposed to international cooperation. These elements, which have recently jeopardized the stability of the regime by obstructing economic reform measures, might thus be able to win Peron to their point of view. Under these circumstances, the Peron regime may accuse the US of having supported the harsh British demands, may abandon its recent moves to alleviate economic instability through improved trade relations with the US, and may revert to its policy of seeking to displace US leadership in Latin America.

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COLOMBIA

Coming Elections The recent exclusion of Liberals from the Colombian cabinet has aggravated an already tense political situation, and sporadic violence will probably continue before and after the 5 June congressional elections. Police and army, however, are expected to prevent any outbreaks from attaining the proportions of civil war. The cabinet crisis grew out of President Ospina's refusal to accede to specific Liberal Party demands regarding guarantees of fair elections. Partisan conflict, however, is not expected to cause a postponement of the elections in which the Liberals will probably retain and may possibly increase the majority they now hold in both houses of Congress.

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SECRET**COMMUNISM IN FRENCH NORTH AFRICA**

France's ability to keep French North Africa stable will be seriously threatened if the current trend toward Communist-Nationalist collaboration leads to outbreaks of violence. The growing cooperation between the Communists and the Nationalists is largely the result of a change in French Communist Party policy toward the support of Nationalism in dependent areas and Nationalist resentment over French policy.

The French Communist Party, which formerly advocated inclusion of Tunisia, Algeria, and Morocco within the French Union, has now reversed its stand, and is endorsing the Nationalist independence movement. This about-face was preceded by a renewal of local Communist activity designed to bring about closer collaboration with the Nationalist independence movement and to incite the Nationalists to adopt a more active role. Although small numerically, the Communist parties in French North Africa are permitted to function as political parties, are now receiving more support from the French Communist Party, and have been little affected by French government measures devised to restrict their activity.

Communist efforts to include the Nationalists in a popular front are meeting with some success, with the prospect that, inspired by the Communists, the younger Nationalists will turn from the passive resistance of their elders to a program of violence. The Nationalist revolutionary movement, which advocates immediate and complete independence for French North Africa, is loosely coordinated within the three areas. Proscribed but tolerated by French authorities, it has approximately 100,000 active adherents, with an additional

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300-500,000 passive sympathizers. Until recently cool toward Communist overtures, the Nationalists--particularly the younger French-educated Moslems--are becoming more receptive to Communist proposals for direct action. This increased cooperation with the Communists is primarily the result of growing dissatisfaction with French policy, and, to a lesser extent, the lack of material aid or moral encouragement from the US and the demonstrated ineffectiveness of the Arab League which for a time had held forth a hope of assistance.

The weakening of French military strength in North Africa by continued transfers of troops to Indochina provides an opportunity which Communist-inspired Nationalists may exploit by resorting to violence. Existing French security forces would be severely taxed by the outbreak of local riots and disorders which, if widespread, would constitute a threat to stability of French North Africa for some time to come.

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